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OFFICE OF THE
EXECUTIVE SECRETARY

February 26, 1999

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Subject: **Docket No. 97-01364**
United Cities Gas Company's PBR Tariff

Dear Mr. Waddell:

United Cities Gas Company herewith submits for filing and approval 1st Revised Sheet No. 45.1 applicable to all Tennessee service areas.

This revised tariff sheet is being filed at the request of Chairman Malone during his deliberations at the Directors' Conference on February 16, 1999.

Your review and approval of this tariff sheet to become effective April 1, 1999 are respectfully requested.

If you have any questions, please feel free to call me at 615-595-7700, ext. 231.

Sincerely,

A handwritten signature in cursive script that reads "John L. Baugh".

John L. Baugh,
Senior Analyst
Rate Administration

Enclosures

pc: Consumer Advocate Division

PERFORMANCE BASED RATEMAKING MECHANISM RIDER

Applicability

The performance-based ratemaking mechanism rider replaces the current reasonableness review of the utility's gas purchasing activities overseen by the Tennessee Regulatory Authority. This new mechanism is designed to encourage the utility to maximize its gas purchasing activities at minimum costs consistent with efficient operations and service reliability, and will provide for a shared savings or costs between the utility's shareholders and ratepayers.

Overview and Structure

The performance-based ratemaking mechanism consists of two parts:

Gas Procurement Incentive Mechanism
Capacity Management Incentive Mechanism

Determination of Shared Savings

The calculations, recording of data and determination of the various elements with respect to the two mechanisms, including transactions with affiliates, shall be accomplished in accordance with formulas and/or guidelines approved by the Authority in Docket 97-01364. The Company's reserve margin shall be calculated in accordance with Exhibit RKW-1 in Docket No. 95-01134. Monthly data will be recorded no later than 90 days after the last calendar day of each month. The results of the monthly calculations shall be recorded in an Incentive Plan Account as a debit entry in the event of shared savings or a credit entry in the event of shared costs. Such shared savings or shared costs shall be reflected in a true-up mechanism similar to the Company's Actual Cost Adjustment (factors DACA or CACA of the Company's PGA Rider).

The Company shall not recognize more than \$1,250,000 in overall savings or costs in any plan year, which shall begin on April 1 of each year this rider is effective.

Filing with the Commission

The Company will file calculations of shared savings and shared costs quarterly with the Authority not later than 60 days after the end of the quarter or more frequently if required by Authority Order in Docket 97-01364. The Company will also file amounts of shared savings and shared costs with the Authority concurrently with any Actual Cost Adjustment (ACA) filing in order for the Staff to conduct an audit of the PBR calculations. Such audit shall be conducted in the same manner as the ACA audit.

UNITED CITIES GAS COMPANY
EXHIBIT RKW-1

RESERVE MARGIN.

Applicability. United Cities may maintain a reserve of natural gas in excess of its projected peak day requirement and recover the cost of the reserve from their customers through the purchased gas adjustment.

Definitions.

- a. **Projected peak day requirement.** The projected peak day firm requirement in MCF based upon a 5 year reoccurrence interval or the coldest degree day expected in a five year period as published in the annual "Gas Supply and Requirements Manual".
- b. **Gas available to meet demand.** All firm gas contracted for by a utility, excluding the delivery-capacity of liquefied natural gas and propane storage facilities, shall be considered as gas available to meet demand.
- c. **Contract demand.** The amount of firm gas a utility is entitled to take on a daily basis, pursuant to contract.
- d. **Base period demand.** The maximum peak of the projected heating season shall form the base period demand to establish a utility's maximum peak demand. A reserve margin of 7.5 percent or less in excess of the base period demand adjusted for specific gain/loss of customers and/or throughput on a specific case by case basis will be presumed reasonable.

Rebuttable presumption. All gas available to meet demand in excess of an amount needed to meet the base period demand plus the reserve is presumed to be unjust and unreasonable unless a factual showing to the contrary is made. All gas available to meet demand less than an amount of base period demand plus the reserve is presumed to be just and reasonable unless a factual showing to the contrary can be made.